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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

**FACING PAGE**  
**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/05 AND ENDING 12/31/05  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

Dillon Capital, Inc.

OFFICIAL USE ONLY
FIRM ID NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

95 Revere Drive, Suite A

Northbrook IL 60062  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Stewart Flink 847-418-8302  
(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Altschuler, Melvoin and Glasser LLP  
(Name - if individual, state last, first, middle name)

One South Wacker Drive Chicago IL 60606-3392  
(Address) (City) (State) (Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
- ☐ Public Accountant
- ☐ Accountant not resident in United States or any of its possessions

PROCESSED  
APR 27 2006  
THOMSON  
FINANCIAL

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2).

Potential Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a current valid OMB control number.

# **Dillon Capital, Inc.**

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**December 31, 2005**

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**Altschuler, Melvoin and Glasser LLP**  
Certified Public Accountants

## **Independent Auditors' Report**

Stockholder of  
Dillon Capital, Inc.

We have audited the accompanying statement of financial condition of Dillon Capital, Inc. as of December 31, 2005 that you are filing pursuant to Rule 17a-5 of the Securities and Exchange Commission. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Dillon Capital, Inc. as of December 31, 2005 in conformity with U.S. generally accepted accounting principles.

*Altschuler, Melvoin and Glasser LLP*

Chicago, Illinois  
February 16, 2006

**Dillon Capital, Inc.**  
**Statement of Financial Condition**  
**December 31, 2005**

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**Assets**

Cash	\$ 6,232
Private placement fees receivable	<u>40,000</u>

<b>Total assets</b>	<b><u>\$ 46,232</u></b>
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**Liabilities and Stockholder's Equity**

Liabilities	
Accounts payable	\$ 5,500

Stockholder's equity	<u>40,732</u>
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<b>Total liabilities and stockholder's equity</b>	<b><u>\$ 46,232</u></b>
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# **Dillon Capital, Inc.**

## **Notes to the Statement of Financial Condition**

**December 31, 2005**

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### **Note 1 Nature of Operations and Significant Accounting Policies**

**Nature of Operations**—Dillon Capital, Inc. (the "Company") is registered as a broker-dealer with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (NASD). The Company's business activities include the private placement of securities and the selling of limited partnerships interests.

**Use of Estimates**—The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Income Recognition**—Private placement fees and related expenses are recognized at the time the private placement is substantially completed and the income is reasonably determinable.

**Income Taxes**—The Company has elected to be taxed under the Subchapter S provisions of the Internal Revenue Code. Under these provisions, the Company does not pay Federal corporate income taxes on its taxable income. The stockholder is liable for individual income taxes on the Company's taxable income.

### **Note 2 Related Parties**

The Company has entered into an agreement with an entity affiliated through common ownership whereby certain operating expenses of the Company are paid by the affiliate and reimbursed by the Company.

### **Note 3 Concentration of Credit Risk**

The Company maintains its cash in a bank deposit account that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. Management believes that the Company is not exposed to any significant credit risk on cash.

### **Note 4 Net Capital Requirements and Subsequent Event**

The Company is a broker-dealer subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1). Under this rule, the Company is required to maintain net capital of 6-2/3 percent of "aggregate indebtedness" or \$5,000, whichever is greater, as these terms are defined. Net capital and aggregate indebtedness change from day to day, but at December 31, 2005, the Company had net capital and net capital requirements of \$732 and \$5,000, respectively. The Company did not meet the minimum capital requirements at December 31, 2005 due to the declaration and payment of dividends in December 2005 prior to the collection and deposit of earned private placement fees. Private placement fees of \$40,000 were deposited into the Company's bank account on January 4, 2006, which increased the Company's net capital above its net capital requirement. The net capital rule may effectively restrict the withdrawal of stockholder's equity.



**Altschuler, Melvoin and Glasser LLP**  
Certified Public Accountants

## **Independent Auditors' Report on Internal Control**

Stockholder of  
Dillon Capital, Inc.

In planning and performing our audit of the financial statements of Dillon Capital, Inc. (the "Company") for the year ended December 31, 2005, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11).

Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraphs. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraphs, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraphs.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted the following matter involving internal control that we consider to be a material weakness as defined above. This condition was considered in determining the nature, timing and extent of the procedures performed in our audit of the Company's financial statements as of and for the year ended December 31, 2005, and this report does not affect our report thereon dated February 16, 2006.

In December 2005, dividends of \$59,250 were declared and paid to the Company's sole stockholder. As a result of inadvertently considering private placement fees receivable as an allowable asset when declaring these dividends, the Company's net capital declined below the minimum amount required. Management of the Company filed appropriate notice on February 21, 2006 as required by SEC Rule 17a-11. Private placement fees receivable of \$40,000 were deposited into the Company's bank account on January 4, 2006, which increased the Company's net capital above the required amount. Management of the Company has informed us that they have established and implemented additional practices and procedures addressing this matter, which includes the prompt deposit of all private placement fees received and the preparation of a net capital computation before the declaration of dividends.

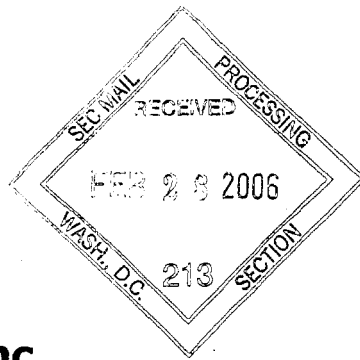
We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, except for the matter noted in the above paragraph, we believe that the Company's practices and procedures were adequate at December 31, 2005, to meet the SEC's objectives.

It is not practicable for a company of this size to achieve all the divisions of duties and cross-checks generally included in a system of internal accounting control and, as a result, greater reliance is placed on close supervision of accounting records by management on a daily basis.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, NASD, and other regulatory agencies that rely on Rule 17a-5(g) of the SEC in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Three handwritten signatures in black ink, appearing to be 'Altshuler', 'M. [unclear]', and 'Blumenfeld'.

Chicago, Illinois  
February 16, 2006, except for the sixth paragraph  
as to which date is February 21, 2006



**Dillon Capital, Inc.**

## **Statement of Financial Condition**

**December 31, 2005**

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Filed Pursuant to Rule 17a-5(d) Under the Securities  
Exchange Act of 1934

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**Altschuler, Melvoin and Glasser LLP**  
Certified Public Accountants